

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SAM-01 CIAE-00 DODE-00 PM-04 H-02

INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15

USIA-06 EB-07 AGR-05 OMB-01 TRSE-00 AID-05 COME-00

FRB-03 XMB-02 OPIC-03 CIEP-01 LAB-04 SIL-01 /092 W

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R 221129Z JUL 76

FM AMEMBASSY MADRID

TO SECSTATE WASHDC 6471

C O N F I D E N T I A L MADRID 5628

E.O. 11652: GDS

TAGS: EGEN, PINT, SP

SUBJECT: COST OF LIVING DECLINES IN JUNE

REF: MADRID 5450

1. SPAIN'S COST-OF-LIVING INDEX FOR JUNE SHOWED A DECLINE OF 0.62 PERCENT FROM THE LEVEL REACHED AT THE END OF MAY, LENDING CONSIDERABLE CREDIBILITY TO THEORY REPORTED REFTEL THAT 4.58 PERCENT INCREASE REGISTERED IN MAY WAS VERY POSSIBLE A MANIPULATED FIGURE MEANT TO HELP FORCE ARIAS GOVERNMENT OUT OF OFFICE.

2. THE LAST TIME THE COST-OF-LIVING INDEX DECLINED WAS IN FEBRUARY 1972 WHEN IT FELL 0.08 PERCENT. JUNE IS TRADITIONALLY A MONTH OF LOW PRICE INCREASES THANKS TO ABUNDANCE OF FRESH FOOD PRODUCTS AND FACT THAT FOOD ACCOUNTS FOR 49 PERCENT OF INDEX WEIGHTING. IN JUNE 1975 INDEX ROSE 0.27 PERCENT AND IN JUNE 1974 0.44 PERCENT. IN 12 MONTHS ENDED JUNE 30 OF THIS YEAR, INDEX HAS RISEN 19 PERCENT, 11 PERCENT DURING FIRST SIX MONTHS OF 1976.

3. THE 4.58 PERCENT INCREASE IN MAY WAS OBVIOUSLY AN
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ABERRATION, WHETHER DELIBERATE OR NOT. THAT INFLATION

REMAINS A SEVERE PROBLEM FOR SPAIN, DESPITE WELCOME
JUNE DECLINE, IS UNDOUBTED. IN POLITICAL TERMS IT IS
THE MOST SIGNIFICANT ECONOMIC PROBLEM FACING THE NEW
GOVERNMENT. ECONOMICALLY, THE BALANCE OF PAYMENTS
SITUATION MAY PROVE OF MORE IMMEDIATE CONCERN, BUT IT,
OF COURSE, IS CLOSELY LINKED TO RATE OF INFLATION.
IT SHOULD NOW BE CLEAR, HOWEVER, THAT WHILE A HIGH
LEVEL OF INFLATION CAN BE EXPECTED FOR THE WHOLE OF
1976, IT SHOULD BE NO MEANS APPROACH WHAT WAS IMPLIED
BY THE MAY FIGURE. THE HIGH WAGE SETTLEMENTS THAT
COULD BE GRANTED LATER THIS YEAR WOULD BE UNLIKELY TO
CHANGE THIS, ALTHOUGH THEY WOULD HARDLY HELP THE
RNSITUATION AND WOULD PROBABLY HAVE A SIGNIFICANT EFFECT
IN 1977. BUT UNLESS THE GOVERNMENT'S BUDGETARY DEFICIT
GETS COMPLETELY OUT OF LINE OVER THE NEXT 6 MONTHS,
IT IS HARD TO SEE WHERE THERE ARE SUFFICIENT PRESSURES
IN THE ECONOMY TO SEND THE INDEX ABOVE 20 PERCENT FOR
1976. SOMETHING CLOSER TO 17 OR 18 PERCENT NOW APPEARS
MORE LIKELY.
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